

## PDM Investment Services, LLC

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January 1, 2019

FORM ADV PART 2  
FIRM BROCHURE

This brochure provides information about the qualifications and business practices of PDM Investment Services, LLC. If you have any questions about the contents of this brochure, please contact us at (248) 890-4696. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about PDM Investment Services, LLC or Philip Michalek is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The searchable IARD/CRD number for PDM Investment Services, LLC is 155217.

Enter advisor name and search for disclosure. Next enter Firm name and search to ADV 1, 2.

PDM Investment Services, LLC is a Registered Investment Advisor and has been registered with the State of Michigan, as an investment advisor, since 2011.

Registration does not imply a certain level of skill or training.

## Summary of Material Changes

Form ADV Part 2A, Item 2

We will provide you with a new brochure annually or as necessary based on changes or new information. At any time, we may provide clients with a brochure and other ongoing information material as necessary.

### Updates on January 24, 2012.

Item 4 - Complete update to match website.

Item 5 - Added new products to fee schedule and added "Clients are sent an invoice 7 days before the fee is processed with their credit card or deducted from their account by the custodian. This gives the client a chance to review the calculation." to the first paragraph.

Item 7 - Updated the client assets under management range and the average client assets under management.

Item 8 - Complete update to match website.

Item 12 - Moved clients to Scottrade Advisor Services.

Item 16 - Added Scottrade Trading and Fee Authorization Agreement.

### Updates on February 14, 2013.

Item 4 - Updated advisory business with minor changes.

Item 5 - Updated the fee schedule with minor changes.

Item 7 - Updated client types.

Item 8 - Updated with minor changes.

### Updates on February 25, 2014.

Item 4 - Updated advisory business with minor changes.

Item 5 - Updated the fee schedule with minor changes.

Item 7 - Updated minimum AUM per family, AUM managed and client types.

Item 11 - Added trading error

Item 14 - Removed client referral service discounts.

### Updates on January 1, 2016.

Item 4 - Updated Advisory Business specifying registered with the State of Michigan (Audit 6)

Item 4 - Updated Advisory Business removing market-beating returns wording (Audit 7)

Item 4 - Updated Portfolio Design & Management removing strategy contributions and 70% (Audit 8)

Item 4 - Added Types of Investments and security restrictions to this section (Audit 9)

Item 4 - Updated AUM with percent discretionary clients and non-discretionary clients (Audit 10)

Item 4 - Updated Assets Under Management Table

Item 5 - Changes the fee structure wording and fee table

Item 5 - Added a 2-tier fee structure for Portfolio Designs (Audit 11)

Item 7 - Removed Discretionary List from this section (Audit 12)

Item 8 - Updated Methods of Analysis removing strategy contributions (Audit 8)

Item 8 - Changed Investment Strategies markets are positive 70% of the time (Audit 13)

Item 8 - Added Investment Strategies Risks (Audit 14)

Item 8 - Updated Investment Strategies Low Cost Strategy driving higher performance (Audit 15)

Item 8 - Updated Risk of Loss section (Audit 14)

Item 11 - Updated Tracking Error, Confidentiality and Termination.

Item 13 - Added Scottrade instructions to Review of Accounts

Item 17 - Update Voting Client Securities section (Audit 16)

Item 19 - Updated additional information on Philip Michalek

**Updates on January 1, 2017**

- Item 4 – Updated Services
- Item 4 – Assets Under Management
- Item 5 – Fees and Compensation
- Item 8 – Investment Strategies
- Item 11 – Added Marketing and internet presence

**Updates on January 1, 2018**

- All – Custodian changed from Scottrade to TD Ameritrade in 2018.
- Item 4 – Assets Under Management
- Item 5 – Fees and Compensation, Wealth Plans \$300 to \$500,  
AUM Minimum raised from \$100,000 to \$200,000
- Item 7 – Types of Clients
- Item 8 – Information Sources
- Item 11 – Cyber Security
- Item 12 – Brokerage Practices, Scottrade to TD Ameritrade transfer
- Item 13 – Remove Scottrade Delivery Settings
- Item 17 – Remove Scottrade Delivery Settings

**Updates on January 1, 2019**

- Item 4 – Assets Under Management
- Item 5 – Fees and Compensation. AUM Minimum raised to \$300,000.  
New 401(k) design and management fee structure.  
New Wealth Building Plan and Money Guide Pro Plan cost structure.

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# Advisory Business

Form ADV Part 2A, Item 4

PDM Investment Services, LLC is a Registered Investment Advisor and has been registered with the State of Michigan, as an investment advisor, since 2011.

Philip Michalek is the president and owner of PDM Investment Services. Mr. Michalek has a past career in engineering and engineering management with strong analytical skills. Mr. Michalek has acquired knowledge from studies in behavioral finance to help control emotions during market tops and bottoms. Mr. Michalek is dedicated to bringing analysis of the stock market to the average investor. Philip Michalek puts his personal money into his investment strategies. His motivation comes from his passion toward investing and helping others.

Our primary focus is portfolio analysis, design and management, not a broad range of financial products. What makes us different is that we offer a customized solution based on your needs. Most advisors want to sell you their complete portfolio management product and other products you may not need. The products we sell are the products that we use with our personal portfolios and have worked well for us.

## Types of Services

### *Wealth Building Plan Development & Support*

- Investment Goals & Risk Tolerance
- Wealth Building Guidelines (Income, Spending, Saving and Debt Service)
- Investment Summary
- Investment and Income Projections
- Portfolio Allocation & Analysis
- Benchmarking

### *Portfolio Design & Management*

- Investment Goals and Risk Tolerance
- Strategic Asset Class & Sector Allocation
- Mutual Fund Selection
- Portfolio Management (Design, Implementation and Management)
- Portfolio Performance & Analysis

### *Focused Growth Investor Newsletter*

- Market Outlook
- Strategic Asset Class & Sector Allocation
- Mutual Fund Selection
- Portfolio Management & Investor Education

### *Wealth Plan Development & Support*

- Investment Goals & Risk Tolerance
- Wealth Building Guidelines  
Income, Spending, Saving and Debt Service
- Investment Summary
- Investment and Income Projections
- Portfolio Allocation & Analysis
- Benchmarking

A Wealth Building Plan, Investment Plan and Retirement Plan are written long-term plans to guide you to meet your retirement goals and maintain income in retirement. A plan provides peace of mind to your family and increases one's confidence and effectiveness in managing income, spending, saving, debt and investing.

The investment process is complicated and requires strict discipline without emotion. Thru experience, it is our belief that without professional guidance, most will likely produce mediocre returns, and not meet your retirement goals. You should always seek professional advice unless you receive the proper training, invest in the proper tools, and are willing to put the time into managing your portfolio. Most people find investing complicated, difficult to find good advice and are worried about losing money.

Your wealth is determined by how well you execute the items below:

- Increase Career Income
- Control Spending
- Increase Saving
- Manage Debt and Credit Cards
- Execute a Sound Investment Plan
- Total Stock Market Performance
- Monitor your Plan and Investment Portfolios on a Regular Basis

Review your plan for savings, spending, investing, asset allocations, investments, advisor fees and progress toward your retirement goals.

## *Portfolio Design & Management*

- Investment Goals and Risk Tolerance
- Strategic Asset Class & Sector Allocation
- Mutual Fund Selection
- Portfolio Management  
Design, Implementation and Management
- Portfolio Performance & Analysis

Through our experience, we believe the attributes of a good professional portfolio design are diversification, strategic asset allocation, security selection, implementation, management and discipline. Your portfolio is designed to meet your long-term retirement goals based on your risk tolerance and time horizon.

The investment process is complicated and requires strict discipline without emotion. You should always seek professional advice unless you receive the proper training, invest in the tools and are willing to put the time into managing your portfolio. We find, most investors find it difficult to implement and maintain an asset allocation strategy, reducing the likelihood of success.

The major contributors to the performance of an investment portfolio, in our belief, are listed below.

- Total Stock Market Performance (Total stock market and asset class performance)
- Asset Allocation (Percent in stocks, bonds, cash and each asset class)
- Security Selection (Stocks, mutual funds, bonds, etc.)
- Portfolio Management (Implementation, discipline, emotional control and performance feedback)
- Portfolio Management Fees and Custodian Transaction Fees

### Strategic Asset Class & Asset Allocation

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio. The model is based on fundamental, valuation, technical, relative strength and past performance.

**Mutual Fund Selection:** Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund. Portfolios are designed and managed using higher rated funds and market leaders. The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return. Our portfolios are designed with no-load mutual funds, ETFs and stocks with strong management, sound investment strategies, strong and consistent performance and high risk-adjusted returns. We use an allocation of diversified and focused sector investments, tactical and asset class allocation, fundamental and technical analysis, growth and value, large and small companies.

Your assets are held in a TD Ameritrade, Scottrade or Schwab brokerage account for transparency and your safety. You can always see where your money is invested. We provide independent advice in an open architecture. Open architecture means you are not limited to a defined set of funds and stocks. We use solid investment strategies, pro-investor structure and have management ownership, integrity, passion for investing and strong customer service. Below is a list of our offerings.

- Training, Tools, Discipline and Time
- Professional Portfolio Design with Strategic Asset Allocation
- Efficient Portfolio Implementation with Discipline and Timely Execution of Trades
- Investment Plan with a Consistent Strategy
- Portfolio Summaries are sent quarterly (Market analysis, portfolio performance & analysis, investment holdings, asset allocation, cash movements and management fees)
- Annual Tax Summary for Taxable Accounts
- Emotional Guidance During Bubbles and Bear Markets
- Free Focused Growth Investor Newsletter (\$120 per year value)

## *Focused Growth Investor Newsletter*

- Market Outlook
- Strategic Asset Class & Sector Allocation
- Mutual Fund Selection
- Portfolio Management & Investor Education

The Focused Growth Investor is an outlook on the stock market, asset classes and equities. Our goal is to be in the market at the right time, select the best sectors and asset allocation for market conditions, then select the best stocks and mutual funds in each asset class. The Focused Growth Investor is an all-in-one newsletter with everything you need to design and manage your investment portfolios.

### **Market Summary**

A summary of what is driving the stock market and investor concerns.

### **Market Dynamics**

Market Dynamics show how inflation, interest rates, the economy, earnings, investor psychology, market valuations, cycles & seasonality and global crisis's affect the stock market.

### **Market Outlook**

Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around there define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to confirm our model signals. The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

### **Portfolio Performance**

The performance of our model portfolios is displayed and compared to its benchmark. Performance calculations are derived from our actual cash accounts and independently verified annually. Portfolio and sector/asset class analysis.

### **Investment Strategy Analysis**

Analysis of the market and our strategy.

### **Strategic Asset Class Allocation Model**

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio. The model is based on fundamental, valuation, technical, relative strength and past performance.

### **Mutual Fund Selection**

Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund. Portfolios are designed and managed using higher rated funds and market leaders. The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return.

### **Diversified Mutual Fund & Sector Portfolio**

Our model Diversified Mutual Fund & Sector Portfolio is displayed with funds we monitor in each asset class, fund minimums, availability, transition fees, grades and performance relative to benchmark.

### **Focused Sector Stocks & Mutual Fund Portfolio**

Our model Focused Sector Stock & Mutual Fund Portfolio is displayed with the stocks we monitor in each sector. Fundamental, valuation, technical, total score, buy-hold-sell ratings and stock performance relative to its benchmark are displayed for each stock. Current news on each stock is also displayed.



## Types of Investments

Our portfolios are designed with no-load mutual funds, ETFs and stocks. A client may impose restrictions on investing in certain types of securities, individual securities or mutual funds upon request.

## Assets Under Management

We manage 100% of our client assets on a discretionary basis and 0% on a non-discretionary basis.

Clients advised by PDM Investment Services are individuals. See the table below for a profile of our clients. As of 12/31/2018.

• Assets Under Management (AUM)	\$21,500,000 (Includes family AUM)
• Average Household AUM	\$525,000
• Households	41
• Clients	71
• Portfolios Managed	100

# Fees and Compensation

Form ADV Part 2A, Item 5

## Portfolio Management

PDM Investment Services will receive an asset-based fee on a quarterly basis for investment supervision and management of the Portfolio. Advisory fees for Portfolio Management are based on the market value of assets under management at the beginning of each quarter. Fees are payable on a quarterly basis after each quarter.

## Portfolio Management

PDM Investment Services will receive an asset-based fee on a quarterly basis for investment supervision and management of the Portfolio. Advisory fees for Portfolio Management are based on the market value of assets under management at the beginning of each quarter. Fees are payable on a quarterly basis after each quarter.

### Minimum requirement for portfolio management

\$100,000 and \$300,000 Single Portfolios (1 or 2)

Portfolio Management, Quarterly Performance Reports, FGI Newsletter

\$300,000 and higher Multiple Portfolios (sum)

Portfolio Management, Quarterly Performance Reports, FGI Newsletter

Free Wealth Building Plans (Current or MGP), Free 401(k) Designs

We may waive the minimum if the family appears to have significant potential for increasing their assets under management, the management is for one larger portfolio or the portfolio management is for client's children.

For new clients, fees are prorated for the time the account was active within the quarter.

For existing clients, the fee percent is reviewed quarterly and adjusted to schedule based on the assets under management

at the beginning of the quarter. The fee structure is not prorated for money movements during the quarter.

**Money added** to a portfolio during the quarter will not be prorated and will be adjusted in at the beginning of the next quarter.

**Money removed** from a portfolio during the quarter, will not be adjusted out of that quarter's fees unless the amount is significant.

(Significant is if the adjustment of the withdrawal results in \$100 or more reduction in fee)

If assets under management drop pushing the client into a higher fee bracket from significant withdrawals and assets are expected to stay in this higher fee bracket for at least 12 months, the client fee will be adjusted for the next quarter.

If the assets under management drop pushing the client into a higher fee bracket from a market decline or regular retiree income withdrawals, the fee will remain the same.

The client is responsible for brokerage transaction fees and any other charges incurred by the custodian on the client's behalf. Clients are billed quarterly and can pay by check or custodian deduction. Clients are sent an invoice 7-days before the fee is processed with their credit card or deducted from their account by the custodian. This gives the client a chance to review the calculation. The quarterly fee is 25% of the annual fee listed below. Fees may vary from schedule for prior clients. The fee schedule below is for combined family assets under management. Fee schedule effective for new clients and existing clients adding 401(k) management services April 2018.

Portfolio management fees for my immediate family may be lower.

Either the client or advisor may terminate this agreement at any time confirming in writing. In the event this agreement is cancelled, the fee payable by client shall be prorated for the current quarter. Upon advisor receipt of written notice of termination from client, advisor shall terminate portfolio management on an agreed upon date by the client and collect the prorated final fee.

### **Portfolio Management Fee Table (TD Ameritrade Custodian)**

Assets Under Management		Annual Fee	Paid Quarterly
\$100,000 to \$200,000	Single portfolio	1.0%	0.250%
\$200,000 to \$300,000	Single portfolios (1 or 2)	0.9%	0.225%
<b>\$300,000 to \$499,000</b>	<b>Multiple portfolios (sum)</b>	<b>0.8%</b>	<b>0.200%</b>
\$500,000 to \$699,000	Multiple portfolios (sum)	0.7%	0.175%
\$700,000 to \$1,499,000	Multiple portfolios (sum)	0.6%	0.150%
\$1,500,000 and higher	Multiple portfolios (sum)	0.5%	0.125%

**401(k) Portfolio Management (Plan Custodian)**

>\$300,000 AUM with TD Ameritrade accounts also.

401(k) fees will be debited from your TD Ameriprise account.

\$800 annual flat fee, \$200 per quarter.

\$200,000 (0.40%), \$300,000 (0.27%), \$500,000 (0.16%), \$600,000 (0.13%), \$700,000 (0.11%),

\$1,000,000 (0.08%)

**Standard Wealth Building Plan or Advanced Money Guide Pro Plan (Account Aggregation, Client Portal)**

>\$300,000 AUM (Current and New Clients)

Standard Wealth Building Plan – Free

Money Guide Pro Plan – Free

<\$300,000 AUM (Current Clients)

Standard Wealth Building Plan – Free

Money Guide Pro Plan – \$500 1<sup>st</sup> year setup then \$300 per year after support fee.

\$0 AUM Plan Only

Standard Wealth Building Plan – \$500 one time. (Plan with no money management engagement)

Money Guide Pro Plan – \$1,000 1<sup>st</sup> year setup then \$500 per year after support fee.

**401(k) Plan Reviews**

>\$300,000 AUM – Free for clients and their children under 30 years old.

**401(k) Plan Portfolio Designs**

>\$300,000 AUM – Free for clients and their children under 30 years old.

\$0 AUM – \$100 per year per design. Jabil 401(k) designs are \$60 per year.

**Focused Growth Investor Newsletter**

>\$300,000 – Free for clients and their children under 30 years old.

\$0 AUM – \$120 per year for 12 issues or \$200 for two years for 24 issues, paid in advance.

Upon cancelation, a prorated refund will be distributed for the unsent issues of the term.

Current customer fee structure may be different and is grandfathered in.

The advisor does not receive any compensation from the securities selected or the recommended broker-dealer.

## Performance-Based Fees and Side-By-Side Management

Form ADV Part 2A, Item 6

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. The Advisor is not compensated on the basis of a share of capital gains or capital appreciation of the funds or any portion of the funds of the client. The Advisor only manages portfolios to the fee schedule in item 5.

## Types of Clients

Form ADV Part 2A, Item 7

We offer investment advisory services to individuals only.

Some of our clients are considered high net-worth individuals with liquid financial assets over \$1,000,000.

The minimum requirement for opening a portfolio management account is \$300,000 per family. We may waive the minimum if the family appears to have significant potential for increasing their assets under management.

# Methods of Analysis, Investment Strategies and Risk of Loss

Form ADV Part 2A, Item 8

## Methods of Analysis

The major contributors to the performance of an investment portfolio, in our belief, are listed below.

### Total Stock Market Performance

Total stock market and asset class performance.

#### Asset Allocation

Asset allocation is the percent of the portfolio in stocks, bonds, cash and amount in each asset class. Portfolios are designed with a diversified mix of asset classes and sectors based on your goals, risk tolerance and time horizon. Our Tactical Asset Allocation, Asset Class and Sector Class rating systems help us select a strategic allocation for the economic and market conditions.

#### Security Selection

Security selection is the selection of each stock, mutual fund, bond, etc. Stocks and mutual funds are selected based on our security selection system employing fundamental, technical and valuation analysis. We look for consistent growth at a reasonable price.

#### Portfolio Management

Portfolio management includes the items listed below. Portfolios are designed and managed employing sound management principles within a low-cost structure.

- Efficient implementation
- Timely trade execution
- Discipline
- Emotional control
- Performance feedback

#### Advisor Structure

The attributes of a good Investment Advisor and Advisory Firm are listed below:

- Registered Investment Advisor (Fiduciary: Clients interest first)
- Open architecture, transparency & liquidity
- Manager ownership, strong advisor skills
- Sound investment strategy
- Independent advice
- Investor education
- Low cost structure (Portfolio management fees and custodian transaction fees)

Our strategy has higher positions in Mid Cap, Small Cap, Technology, Financial, Healthcare, Asia and High Yield Bonds than traditional asset allocation strategies. We apply tactical asset allocation for risk management, strategic sector asset allocation through the year as conditions change and use mostly active managed funds. Our strategies perform best when more asset classes are outperforming the S&P 500, more sectors are outperforming the S&P 500, value is outperforming growth, small is outperforming large, high yield bond is outperforming intermediate term corporate bond and active is outperforming passive.

PDM Investment Services has a pro-investor structure. We are independent and have an open architecture. We are not pressured into pushing high cost investment products like loaded mutual funds and annuities. We do not have limitations on which stocks and mutual funds we can purchase. Your investments are held in your custodian account for transparency.

Our strategy is based on growth at a reasonable price. We seek out managers of sound investment strategies that consistently outperform the market without taking on additional risk. We use investment strategies that have been used for years by the most successful investors. We are always searching for the best investment research to enhance our strategies. We are always searching for the best fund managers, advisors and newsletters and read investment books looking for ways to enhance our strategy. Thru experience, it is our belief the best way to get rich is to use good time-tested investment strategies and stick with them.

We do not use risky strategies like derivatives, margin, options, shorting stocks, leverage and penny stocks. We only use strategies and invest in securities we would personally invest in for ourselves. PDM Investment Services practice a pro-investor structure offering independent advice, open architecture, transparency, liquidity and low cost solutions. Client portfolio transactions and holdings are accessible to them thru their custodial account.

Thru our experience, we believe the total stock market, asset allocation, security selection, portfolio management and advisor structure all affect portfolio performance.

Our tactical model sets up our stock, bond and cash allocation. The allocation model sets up our sector and asset allocation. Our stock and mutual fund rating systems tell us which stocks and mutual funds to invest in. Our strategies are employed using low-cost custodians to keep transaction costs low and no-load mutual funds.

To create and manage a portfolio that outperforms its benchmark requires luck and skill. Luck is needed to overcome all the variables we have no control over like the economy, world markets and company manager decisions. Skill comes from analysis, behavioral understanding and sticking with a solid investment plan.

We use the time-tested strategies listed below.

- Tactical Market Asset Allocation for Risk Management
- Strategic Asset Allocation, Strategic Sector Allocation, Concentrated Strategy, Growth Trends
- Security Selection, More Active Managed Investments
- Fundamental Analysis, Valuation Analysis, Technical Analysis
- Investor Psychology, Market Cycle Indicator, Cycle & Seasonality
- Low Cost Investments, Low Turnover, Management Ownership

## Investment Strategies

### **Tactical Market Asset Allocation and Risk Management**

Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around the define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to check against our model signals.

The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

The indicator is used to signal the risk of a Recession Bear Market (> 20% prolonged losses, 2000, 2008), not Correction Bear Markets (>20% loss, 1987, 1998, 2011, 2016) and not Corrections (10% to 20% loss). A positive reading means an increased probability of positive stock market returns. A negative reading means a decreased probability of positive stock market returns. These indicators are not a forecast, but more of a probability of future returns. The indicator may not work in this post debt bubble environment.

The primary risk to portfolio performance with tactical allocation is you must be correct when to reduce equity exposure and correct when to increase equity exposure to see its benefit after transaction costs. It takes one type of brain to sell at the top and another type of brain to buy at the bottom, making this difficult to execute. Timing models that worked in the past, often do not work in the future. Very few mutual funds and investment newsletters rated by Morningstar and Timer Digest outperform the market using timing. Most Tactical Allocation funds do not outperform Moderate Asset Allocation funds.

Tactical asset allocation is rarely successful because it takes a different mindset to buy at the bottom then it does to sell at the top. The strategy typically underperforms during bull markets and outperforms during bear markets. From experience, we believe very few indicators have predictive powers. Market timing systems have a way of breaking down if not constantly evaluated and adjusted for changing world economic and investment conditions. The low and negative interest rate environment we are seeing now could make bear markets more difficult to predict. The world continues to evolve and flatten and new investment methods and systems are added. A better strategy for most is to build a portfolio that you can live with through the market's ups and downs. Even if you had the holy grail of a timing system, you may not act properly on the sell and buy signals due to your emotions.



### **Strategic Asset Class & Sector Allocation**

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.

The model is based on fundamental, valuation, technical, relative strength and past performance. Asset allocation is a systematic way of diversifying a portfolio among different asset classes with varying correlations to each other. Asset allocation determines the mix of asset classes and sectors used to create a portfolio to meet its specified goals and risk level. The most common asset classes are large cap growth, large cap value, mid cap growth, mid cap value, small cap growth, small cap value, international, sectors, bonds and cash. Some sectors perform better in some parts of the economic cycle and worse in other parts. Diversification of non-correlated asset classes will help reduce volatility in a portfolio. Diversification is not a return-enhancement tool it is a risk-reduction tool.

Our portfolios invest in growth sectors like technology, healthcare, financial and Asia. Why invest in the S&P 500 and mutual funds that contain all sectors, including the slow growth ones. Our top-rated sector mutual funds and stocks are used for each sector. Sector mutual fund managers are more focused in each sector compared to one manager that knows a little about each sector in diversified funds.

The primary risk to portfolio performance is selecting the wrong asset class or sector at the wrong time.

### **Mutual Fund and Stock Selection**

Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund.

The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return. We overweight the high relative strength leaders in each asset class in our mutual fund portfolio.

The goal is to select the best investments in each asset class. We look for high performance (alpha), consistent performance, high-risk adjusted returns (sharp ratio) and a solid strategy in mutual funds, ETFs and stocks.

For individual stocks, we look for growth companies with strong and consistent revenue and earnings growth, an expanding or steady pretax profit margin and a return-on-equity that is steady or growing. Companies are purchased at a reasonable price and at a favorable reward-risk ratio.

The primary risk to portfolio performance is selecting a security that underperforms its expectations.

### **Low Cost Investments**

We invest in no-load mutual funds and stocks using a discount broker as custodian.

### **Other Elements of Our Strategy**

Fundamental analysis, valuation analysis, technical analysis, investor psychology, growth trends, market cycles, active & passive managed funds, low turnover funds, concentrated strategy, management ownership funds and cycles & seasonality.

## Risk of Loss

PDM Investment Services does not in any way guarantee the portfolio from loss, nor guarantee any minimum investment performance for client portfolios. Investing in securities involves risk of loss that clients should be prepared to bear. PDM Investment Services shall be responsible only for the satisfactory performance of all duties expressly assumed. Past performance is no assurance of future results. All investments involve individual security risk and market risk. Recommendations and advice are given with the understanding that the client assumes all risks involved. Always consider investment objectives and risk before investing. Investing in individual stocks generally carries more risk than diversified mutual funds. It is not recommended to invest more than 3% of a portfolio into any one stock.

**Systematic Risk (Market Risk)** – the possibility that the entire market and economy will show losses negatively affecting nearly every investment.

**Unsystematic Risk** – the possibility that a strategy, asset class or investment will decline in value without having a major impact upon the entire market.

- **Business Risk** - These are the risks associated with each industry and company.
- **Credit Risk** - Credit risk is the risk that the issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's value and, thus, impact the fund's performance.
- **Interest-rate Risk** - Fluctuations in interest rates may cause investment prices to fluctuate. When interest rates rise, yields on existing bonds and high-dividend stocks become less attractive, causing their market values to decline.
- **Inflation Risk** - When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk and Foreign Securities** - Investments in international and emerging-market securities include exposure to risks including currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.
- **Liquidity Risk** - Liquidity is the ability to readily convert an investment into cash. Treasury Bills are highly liquid, while real estate properties are not. Under periods of extreme market duress, liquidity of most investments may be significantly reduced.
- **Capitalization Risk** — Small cap and mid cap companies may be hindered as a result of limited resources or less diverse products or services and have historically been more volatile than the stocks of larger, more established companies.

## Errors and Omission

The opinions and analysis are based on sources believed to be reliable and written in good faith, but no representation or warranty, expressed or implied, is made as to their accuracy, completeness, timeliness, or correctness. Neither we nor our information providers shall be liable for any errors or inaccuracies.

## Trading Frequency

Our portfolio that invests in individual stocks has a higher frequency of trades. Higher trading frequency involves higher transaction costs and tax consequences. Most of our mutual fund purchases are long-term purchases of over one year.

## Information Sources & Forward Looking Statements

PDM Investment Services uses research material prepared by others including newspapers, newsletters, on-line services, timing services and company press releases. All market, mutual fund and index performance data presented in the newsletter is available at [www.morningstar.com](http://www.morningstar.com). Other information sources are disclosed in the content of the article. Research and data used in our ratings, analysis, newsletter, plans, performance analysis and education include: Morningstar, Barron's, Schwab, Hays, Dow Theory Forecasts, [www.bea.gov](http://www.bea.gov), Bigcharts.com, Ycharts.com, Stockcharts.com, Manifest Investing, Investment Advisory Service, Fidelity Monitor, AAll and Timer Digest. Company news sources are businesswire.com, zacks.com, marketwatch.com, dowjones.com thru Morningstar.com and company websites.

## Disciplinary Information

Form ADV Part 2A, Item 9

PDM Investment Services, LLC and Philip Michalek have no material information responsive to Item 9, disciplinary information.

## Other Financial Industry Activities and Affiliations

Form ADV Part 2A, Item 10

PDM Investment Services and Philip Michalek are not actively engaged in business other than giving investment advice. There is not a general partner or any partnership in which clients are solicited to invest.

PDM Investment Services and Philip Michalek currently do not have any arrangements or are not affiliated with any organization such as a broker-dealer, investment company, bank, law firm, insurance company or another investment advisor.

# Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Form ADV Part 2A, Item 11

## Code of Ethics

PDM Investment Services acts as an independent investment advisor with strong fiduciary responsibilities. PDM Investment Services is a Registered Investment Advisor acting as a fiduciary under ERISA code, putting client's interest first. We strive to comply with applicable laws and regulations governing our practices. We put the client's interests first and act in good faith. We do not receive any compensation that is contingent on any client's purchase or sale of a financial product.

PDM Investment Services, LLC is a Registered Investment Advisor with the Exchange Commission of the State of Michigan. All clients will receive a copy of the Firm Brochure Form ADV 2 from PDM Investment Services annually. Additional information about PDM Investment Services, LLC or Philip Michalek is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for PDM Investment Services, LLC is 155217.

## Strategy

We do not use risky strategies like derivatives, margin, options, shorting stocks, leverage and penny stocks. We only use strategies and invest in securities we personally invest in ourselves. PDM Investment Services practice a pro-investor structure offering independent advice, open architecture, transparency, liquidity and low cost solutions. All of the client's portfolio transactions and holdings are accessible to them thru their custodial account.

## Service to Other Clients

PDM Investment Services purchase recommended securities for themselves and other client portfolios. PDM Investment Services does have discretionary managed accounts that may buy or sell the same securities listed in our newsletter before or after they are recommended. Managed accounts own many but not necessary all recommended securities depending on the size of their account, goals and objectives and risk level.

## Trading Error

Trading error is when the unintended security or amount is executed during a trade. In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. The price change and transaction fees will be used to calculate the amount. The difference will be deducted from the next portfolio management quarterly fee. If a trade error results in a profit, you will keep the profit.

## Trading Frequency

Our portfolio that invests in individual stocks has a higher frequency of trades. Higher trading frequency involves higher transaction costs and tax consequences. Most of our mutual fund purchases are long-term purchases of over one year.

## Errors and Omission

The opinions and analysis are based on sources believed to be reliable and written in good faith, but no representation or warranty, expressed or implied, is made as to their accuracy, completeness, timeliness, or correctness. Neither we nor our information providers shall be liable for any errors or inaccuracies.

## Information Sources & Forward Looking Statements

PDM Investment Services uses research material prepared by others including newspapers, newsletters, on-line services, timing services and company press releases. All market, mutual fund and index performance data presented in the newsletter is available at [www.morningstar.com](http://www.morningstar.com). Other information sources are disclosed in the content of the article. Research and data used in our ratings, analysis, newsletter, plans, performance analysis and education include: Morningstar, Barron's, Schwab, Hays, Dow Theory Forecasts, [www.bea.gov](http://www.bea.gov), Bigcharts.com, Stockcharts.com, Manifest Investing, Investment Advisory Service, Fidelity Monitor, AAIL and Timer Digest. Company news sources are businesswire.com, zacks.com, marketwatch.com, dowjones.com thru Morningstar.com and company websites.

## Investment Performance, Risk of Loss & Responsibilities

PDM Investment Services does not in any way guarantee the portfolio from loss, nor guarantee any minimum investment performance for client portfolios. Investing in securities involves risk of loss that clients should be prepared to bear. PDM Investment Services shall be responsible only for the satisfactory performance of all duties expressly assumed. Past performance is no assurance of future results. All investments involve individual security risk and market risk. Recommendations and advice are given with the understanding that the client assumes all risks involved. Always consider investment objectives and risk before investing. Investing in individual stocks generally carries more risk than diversified mutual funds. It is not recommended to invest more than 3% of a portfolio into any individual stock.

## Confidentiality

All client information is considered strictly confidential and will not be divulged without specific authorization of the client or if allowable by law. PDM Investment Services and its employees have an obligation to keep all information about clients (including former clients) in strict confidence, including a client's identity (unless the client consents in writing), a client's financial circumstances, a client's securities holdings, and advice furnished to a client by the firm. We restrict access to non-public personal information and maintain physical and electronic safeguards to guard your personal information.

E-mail messages are sent primarily to provide information related to our services. This includes notifications when a new newsletter or alert is sent or posted on our website. E-mails will also be sent informing subscribers of any material changes or relevant facts relating to the use of our service. We neither rent nor sell your e-mail address to anyone. We may also send e-mails to current and former subscribers announcing new services, promotions or special offers. If you do not wish to receive these e-mails, please contact us and you will be removed from our mailing list.

Our [fginvestor.com](http://fginvestor.com) website is a secure site that uses Secure Sockets Layer (SSL) software that encrypts the information, such as credit card numbers that you input. By using this site, you agree to our use of your user information as described in this privacy policy. As we add new technology and new services, we will update our privacy policy. We encourage you to look to this policy on a regular basis for our most current privacy policy practices.

## Marketing and Internet Presence

Our website, [www.fginvestor.com](http://www.fginvestor.com) is not intended to offer investment advice and would only offer advice if registered in that state. The website is designed for product information and posting of the Focused Growth Investor newsletter, alerts, and investor education to clients. The advisor also has a presence on LinkedIn. We have limited marketing campaigns and most of our new clients come from referrals.

## Cyber Security

Our computers run virus protection or Apple iOS virus protection updated real time. Net Gear Router has firewall protection and is secured. All trades are made on a secured Wi-Fi or telephone. Files are backed up daily and stored in the secure iCloud. Files containing client personal information such as social security number and account number are securely stored off-line in secure paper files. Email is hosted on a Comcast server. Desktop, laptops and smartphone emails are cleared of sensitive documents quickly.

All documents are sent to TD Ameritrade thru a secure portal. Account access with a login, password and unique one-time token number for TD Ameritrade and Schwab. See TD Ameritrade and Schwab security policy. TD Ameritrade will always notify you of check requests, distributions, transfers and personal information changes by email or post card if no email.

A cyberattack or office disaster would not have any significant impact on portfolio management services due to the custodian arrangement and the file backup process. Portfolio management does not require a specific office computer. We could be back up and running in a few days or until TD Ameritrade is back up and running.

Steps you should take with your personal information and accounts

### Passwords

- Verify your bank, brokerage, credit card, retail, computer, router and phone are secured with a strong password using capital and small letters, numbers and symbols. Change passwords often.
- Add two-factor authentication for all financial websites. (Login, password, text code)
- Never use your social security number as a password.

### Computer

- Make sure your computers are running virus protection software and are always updating.
- Never access accounts or make purchases from a laptop or phone when on a public unsecured Wi-Fi.
- Do not respond with personal information to any popup on your computer, mail, email or phone request. Always call your contact at your institution before you give information. Go to the official company website and call their support number.
- Do not open attachments or click on links of suspicious emails or emails without an unsubscribe option.
- Never send an email with personal information in the title or body content.
- Only enter your personal information on secure websites that start with https and not http.

### Statements

- Monitor your bank, credit card and brokerage accounts online and your statements on a regular basis.

## Investment Duties

PDM Investment Services shall promptly analyze the portfolio and provide continuous review thereof, together with all additions, substitutions, and alterations thereto, as is appropriate for the purpose of investment of the Portfolio. PDM Investment Services shall evaluate such information relating to the economy, industries, businesses, securities markets and securities and consult a sub advisor as it may deem necessary or useful in the rendering of its services hereunder. While PDM Investment Services believe such information is accurate, it does not guarantee the accuracy thereof.



## Reports

The Advisor shall provide the client with periodic reports of investment holdings and performance of the portfolio at minimum on a quarterly basis. The frequency, format and content of such reports shall be mutually agreed upon by the client and advisor. Statements from the custodian are available on the custodian website or client can elect to receive statements by mail.

## Termination and Assignment

No assignment on the advisory agreement shall be made by PDM Investment Services without the consent of client. Either the client or advisor may terminate the agreement at any time by telephone and confirmed in writing. In the event the agreement is cancelled, the fee payable by the client shall be prorated for the current quarter. Upon advisor receipt of written notice of termination from client, advisor shall complete portfolio management on an agreed upon date by the client and collect the final prorated fee.

## Representation and Disclosure

The advisor purchases many of the securities purchased for the client in his own personal accounts before or after client purchases.

## Brokerage Practices

Form ADV Part 2A, Item 12

PDM Investment Services is currently not affiliated with any broker but suggests low cost on-line brokerage services to clients.

The factors considered when selecting a broker are on-line stock and mutual fund trading, trading costs, number of mutual funds offered, reliability, execution speed, overall satisfaction, access to local branches and research available. PDM Investment Services do not use research offered by brokerage firms in their client's accounts. We use free research offered by the custodians of our own personal accounts.

All trading costs are the same for all clients with the same broker. Trading costs do vary between brokers.

We do not receive any compensation from the securities selected or the recommended broker-dealer. We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

In 2011, PDM Investment Services moved to the Scottrade Advisor Service Platform to improve efficiencies of the business and customer service. Scottrade was chosen because of its low transaction costs for stocks and mutual funds and local branches for clients to visit.

In 2018, PDM Investment Services moved to TD Ameritrade Advisor Platform due to the merger. All our clients are planning to transfer to the TD Ameritrade Platform. Fees on the new platform will not change much and offerings will increase.

## Review of Accounts

Form ADV Part 2A, Item 13

President and Investment Advisor Representative, Philip Michalek is the only employee performing account reviews and managing accounts.

For accounts containing stocks and mutual funds, securities and portfolio allocation are reviewed as often as daily, but monthly at a minimum. For accounts containing mutual funds, securities and portfolio allocation are reviewed as often as weekly, but quarterly at a minimum.

Additional reviews may be conducted based on various circumstances, including, but not limited to: market moving events, changes in goals and objectives or financial situation, large additions or subtractions of cash or based upon your personal request.

We shall provide the client with periodic reports of investment holdings and performance of the portfolio at minimum on a quarterly basis. The frequency, format and content of such reports shall be mutually agreed upon by the client and advisor. A complete investment plan and performance review will be performed on an annual basis.

Statements from the custodian are available on the custodian website or client can elect to receive statements by mail.

## Client Referrals and Other Compensation

Form ADV Part 2A, Item 14

Client referral discounts were eliminated on 01/01/2014 based on recommendation of state regulator.

PDM Investment Services does not receive any other form of compensation or economic benefit from referrals from other sources other than clients.

## Custody

Form ADV Part 2A, Item 15

PDM Investment Services shall not at any time have physical possession of client's investment account assets, whether they are cash, securities, or other assets.

Client understands their choice of custodian/broker-dealer may preclude the ability to obtain volume discounts, limit the ability to negotiate commissions and result in a disparity in commission charges among clients.

Account statements are available from your custodian on a monthly or quarterly basis. Notification of new statements will be sent e-mail or displayed when client logs into their account. If you would like to receive statements ground-mail, select the service on-line or notify us. Clients should review broker statements and compare them to advisor statements at least on a quarterly basis.

## Investment Discretion

Form ADV Part 2A, Item 16

PDM Investment Services shall have limited power-of-attorney rights to exercise discretion with the assets in the account. The Advisor shall otherwise have discretion as to the nature, amount, and timing of all such transactions, subject only to the limitations set forth herein or otherwise provided by securities and tax laws.

The advisor, as agent and attorney-in-fact with respect to client, shall place orders, negotiate commissions (if any) or otherwise give instructions without prior consultations or notification to client for the purchase, sale, acquisition, lending, conversion, exercise or disposal of the securities or other assets of the portfolio.

Clients sign and submit a Trading and Fee Authorization agreement when they open new accounts. This allows us to trade securities and deduct fees from client's accounts.

Your assigned Investment Advisor Representative Philip Michalek, will remain in effect unless PDM Investment Services receives written approval from the client for a change.

It is agreed and understood that PDM Investment Services shall invest the assets of the portfolio pursuant to the guidelines and policies established by client, from time to time and communicated in writing to PDM Investment Services. The Investment proposal and/or reports contain client goals and objectives and portfolio style.

Client also authorizes PDM Investment Services, in its sole discretion and as it sees fit to direct the custodian and such brokers as it may select from time to time, to purchase, sell, invest, reinvest, retain, exchange or otherwise trade any or all of the assets of the client's investment account.

## Voting Client Securities

Form ADV Part 2A, Item 17

Mutual fund and individual companies send shareholders emails or mailings for proxy voting each year.

You are asked to vote for officers, wages and policy changes.

In most cases, you will receive proxy materials directly from the account custodian or transfer agent. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail.

You may also receive mailings or emails from Proxy Solicitation and Shareholder Communications Companies like AST Fund Solutions. Be cautious if you decide to respond to one of these companies.

PDM Investment Services does not vote proxies on behalf of advisory accounts. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

## Financial Information

Form ADV Part 2A, Item 18

Our firm does not have any financial conditions or impairments that would prevent us from meeting our contractual and fiduciary commitments to you.

We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$500 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this brochure. We have not been subject of a bankruptcy proceeding.



## Requirements for State-Registered Advisors

Form ADV Part 2A, Item 19

Philip Michalek is the president and owner of PDM Investment Services. Mr. Michalek has a past career in engineering and engineering management. Mr. Michalek has acquired knowledge from studies in behavioral finance to help control emotions during market tops and bottoms. Mr. Michalek is dedicated to bringing analysis of the stock market to the average investor. Philip Michalek puts his personal money into his investment strategies. His motivation comes from his passion toward investing and helping others.

Mr. Michalek has been developing investment strategies and designing and managing personal and family portfolios since 2000. Mr. Michalek has been editor of the Focused Growth Investor Newsletter since 2004.

Philip Michalek is a self-taught investor reading over 50 investment books written by the designers of successful investment strategies, subscribing to top rated investment newsletters and reading Barron's since 1994. Some of the most successful strategies over the past 100 years were developed by Benjamin Graham, Warren Buffett, Philip Fisher, Kenneth Fisher, Martin Zweig, Ned Davis, Peter Lynch, James Stack, William O'Neil and Donald Hays.

Philip Michalek is the Advisor, Analyst, Portfolio Manager, Trader, Newsletter Editor, Compliance Manager and Business Manager. Philip Michalek is engaged in PDM Investment Services full-time and is not involved in any other business activity. Neither the firm, nor Philip Michalek has a material relationship or arrangement with any issuer of securities.

**PDM Investment Services, LLC** was formed in 2005. PDM Investment Services, LLC is a Registered Investment Advisor and has been registered with the State of Michigan since 2011. A Registered Investment Advisor is required to apply for registration with the Investment Adviser Registration Depository (IARD) and submit an ADV 1 and ADV 2 form.

**Philip Michalek** is an Investment Advisor Representative and has been registered with the State of Michigan since 2011. An Investment Advisor Representative is required to apply for registration through the Central Registration Depository (CRD) with a U4 Form and pass the Uniform Investment Advisor Law Exam (Series 65 Exam), or Series 66 Exam. The Series 65 Exam is regulated through the Financial Industry Regulatory Authority (FINRA).

Firms with less than \$100 million of assets under management (AUM) are regulated and audited by the state. PDM is registered with the State of Michigan with an audit schedule of every 3 to 5 years. Our last audit was in 2015. Firms with more than \$100 million of AUM are regulated and audited by the SEC. According to an SEC study in 2015, SEC regulated firms were audited on average every 11 years.

*Formal Education:*

Bachelor's of Science in Electrical Engineering, University of Michigan Dearborn, 1981  
Management II, Manager of Managers, University of Michigan, 1995, 1998  
Finance for the Non-Financial Manager, University of Michigan, 2001

*Business Background:*

Jabil Circuit, Engineering Manager, 1988 to 2010